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Mutual Fund Distributions

For use in preparing
1990 Returns

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Tax Law Changes for 1990

Load Charge Basis Adjustment Denied. The sales fee or similar load charge you pay to acquire shares of a mutual fund is usually added to your cost of the shares. However, under certain conditions, you may not add these charges to your cost. See *Commissions and load charges*, later under *Basis of Shares*.

Introduction

This publication discusses the federal income tax treatment of distributions paid or allocated to an individual shareholder of a mutual fund. A mutual fund is a regulated investment company generally created by "pooling" funds of investors to allow them to take advantage of a diversity of investments and professional management.

This publication also provides information on investment expenses and will help you figure your taxable gain or deductible loss when you sell, exchange, or redeem your mutual fund shares. It also discusses how to report your mutual fund distributions on Schedule B, *Interest and Dividend Income*, and on Form 1040. A comprehensive filled-in example is also provided.

The rules in this publication also apply to money market funds. A **money market fund** is a mutual fund which tries to increase current income available to shareholders by purchasing short-term market investments. Usually, dividends are declared and reinvested daily. When you dispose of your shares, the proceeds generally equal your investment in the fund because the value of the shares generally does not change. Money market funds pay dividends and should not be confused with bank money market accounts which pay interest.

Many people use mutual funds for their **IRAs (individual retirement arrangements).** Get Publication 590, *Individual Retirement Arrangements (IRAs)*, for information concerning the treatment of IRA contributions and distributions.

A **tax-exempt mutual fund** (one that invests primarily in tax-exempt securities) may pay ordinary dividends, capital gain distributions, exempt-interest dividends, undistributed capital gains, or return of capital like any other mutual fund. If the fund pays you exempt-interest dividends, you are not taxed on those dividends (see *Exempt-Interest Dividends*, later). All other distributions generally follow the same rules as a regular mutual fund, explained later. Regardless of what type of mutual fund you have (whether regular or tax-exempt), when you dispose of your shares (sell, exchange, or redeem), you usually will have a taxable gain or a deductible loss to report. See *Sales, Exchanges, and Redemptions*, later.

Free Publications and Forms

If you need information on a subject not covered in this publication, you may check our other free publications. To order publications and forms, call our toll-free telephone number 1–800–829–3676 or write the IRS Forms Distribution Center for your area as shown in the income tax package.

Tax Treatment of Distributions

There are several kinds of distributions that you, as a shareholder, may receive from a mutual fund. They include ordinary dividends, capital gain distributions, exempt-interest dividends, and return of capital (nontaxable) distributions. In addition, the fund may allocate to you an undistributed capital gain.

Form 1099–DIV. A mutual fund will send you a Form 1099–DIV, *Statement for Recipients of Dividends and Distributions*, or a substitute form containing substantially the same language, to tell you what you must report or take into account on your income tax return. See *How to Report*, later.

Community property states. If you are married and receive dividend income that is community income, one-half of the income is considered to be received by each spouse. If you file separate returns, you must each report one-half of the dividend.

If the dividends are separate income and you and your spouse file separate returns, each of you must report your separate income. Get Publication 555, *Federal Tax Information on Community Property*, for more information on community income.

Share certificate in two or more names. If two or more persons, such as you and your spouse, hold shares as joint tenants, tenants by the entirety, or tenants in common, dividends on those shares are considered received by each of you to the extent provided by local law.

Certain year-end dividends received in January. Dividends declared and made payable by mutual funds in October, November, or December are considered received by shareholders on December 31 of that year if the dividends are actually paid during January of the following year.

For details on dividends and other corporate distributions, get Publication 550, *Investment Income and Expenses*.

Ordinary Dividends

An ordinary dividend is a distribution by a mutual fund out of its earnings and profits. Include ordinary dividends that you receive from a mutual fund as dividend income on your individual income tax return.

Ordinary dividends are the most common type of dividends. They will be reported in Box 1b of Form 1099–DIV. If you reinvested your dividends, see *Reinvestment of Dividends*, later.

Capital Gain Distributions

These distributions are paid by mutual funds from their net realized long-term capital gains. The

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Form 1099–DIV (Box 1c) or the fund's statement will tell you the amount you are to report as a capital gain distribution. Report capital gain distributions as long-term capital gains on your return regardless of how long you have owned the shares in the mutual fund. However, if you received a capital gain distribution on mutual fund shares that you held for six months or less **and sold at a loss,** see *Certain short-term losses* under *Holding Period.*

Undistributed capital gains. Some mutual funds keep their long-term capital gains and pay taxes on those amounts. You must report as long-term capital gains any amounts that the mutual fund allocated to you as capital gain distributions, even if you did not actually receive them.

Form 2439. The fund will send you Form 2439, *Notice to Shareholder of Undistributed Long-Term Capital Gains,* showing the undistributed capital gains and any tax paid. You can take a credit for any tax paid because you are considered to have paid it. Take this credit by entering on line 62, Form 1040, the tax shown on Form 2439. Attach Copy B of Form 2439 to your return.

Increase to basis. When a mutual fund allocates undistributed capital gains to you, increase your basis in the shares. To figure the increase, subtract the tax paid for you by the mutual fund from the undistributed capital gain. You should keep Copy C of Form 2439 as part of your records to show increases in the basis of your shares.

Note: The undistributed capital gain reported on Form 2439 should be reported in addition to any gains reported on Form 1099–DIV.

Exempt-Interest Dividends

A mutual fund may pay exempt-interest dividends to its shareholders if it meets certain requirements. These dividends are paid from tax-exempt interest earned by the fund. Since the exempt-interest dividends keep their tax-exempt character, you do not include them in income. However, see *Information reporting requirement,* next. The mutual fund will send you a statement within 60 days after the close of its tax year showing your exempt-interest dividends. Exempt-interest dividends are not shown on Form 1099–DIV. However, if you received exempt-interest dividends on mutual fund shares that you held for six months or less **and sold at a loss,** see *Certain short-term losses* under *Holding Period.*

Information reporting requirement. If you receive dividends that consist of tax-exempt interest, these dividends are not taxable to you. However, you must report them on your tax return if you are required to file. This is an information reporting requirement and does ***not*** convert tax-exempt interest to taxable interest. Also, this income generally is a "tax preference item" and may be subject to the alternative minimum tax. Get Publication 909, *Alternative Minimum Tax for Individuals,* for more information.

Return of Capital (Nontaxable) Distributions

A distribution that is not out of earnings and profits is a return of your investment, or capital, in the mutual fund and is shown in Box 1d of Form 1099–DIV. These return of capital distributions are not taxed as ordinary dividends and are sometimes called tax-free dividends or nontaxable distributions. However, they may be fully or partly taxable as capital gains.

A return of capital distribution reduces your basis in the shares. Basis is explained later. Your basis cannot be reduced below zero. If your basis is reduced to zero, you must report the return of capital distribution on your tax return as a capital gain. The distribution is taxable if it, when added to all return of capital distributions received in past years, is more than your basis in the shares. Report this capital gain on Schedule D (Form 1040). Whether it is a long-term or short-term capital gain depends on how long you held the shares.

Example. You bought shares in a mutual fund in 1986 for $12 a share. In 1987, you received a return of capital distribution of $5 a share. You reduced your basis in each share by the $5 received to an adjusted basis of $7. In 1988, you received a return of capital distribution of $1 per share and further reduced your basis in each share to $6. In 1989, you received a return of capital distribution of $2 per share. Your basis is now reduced to $4. In 1990, the return of capital distribution from the mutual fund is $5 a share. You will report the excess ($1) as a long-term capital gain on Schedule D.

Reinvestment of Dividends

Most mutual funds permit shareholders to automatically reinvest distributions including dividends and capital gains in more shares in the fund through a dividend reinvestment plan. Instead of receiving cash, your dividends are used to purchase additional shares in the fund. You must report the reinvested dividends as income, just as you would report them if you received them in cash. The basis of the additional shares is equal to the dividends reinvested.

Foreign Tax Deduction or Credit

Some mutual funds invest in foreign securities or other instruments. Your mutual fund may choose to allow you to claim a deduction or credit for the taxes it paid to a foreign country or U.S. possession. The fund will notify you if this applies to you. The notice will include your share of the foreign taxes paid to each country or possession and the part of the dividend derived from sources in each country or possession.

You must complete Form 1116, *Computation of Foreign Tax Credit,* if you choose the credit for income tax paid to a foreign country. However, it may be to your benefit to treat the tax as an itemized deduction on Schedule A (Form 1040). For more information on claiming a foreign tax deduction or credit, get Publication 514, *Foreign Tax Credit for Individuals.*

How to Report

Your mutual fund reports its distributions to you, including amounts received and amounts allocated to you, on Form 1099–DIV, or on a substitute form containing substantially the same language. If the total distribution reported to you by the fund includes only ordinary dividends of $400 or less, report the entire amount on line 9, Form 1040. Otherwise, you may have to file additional schedules along with Form 1040 depending on the nature of the dividend income you receive.

The chart, *Reporting Mutual Fund Distributions on Form 1040,* which follows, explains where on Form 1040 or its related schedules to report distributions from mutual funds. An explanation of the different types of distributions shown on the chart was given earlier under *Tax Treatment of Distributions.*

You may be able to file Form 1040A if you had no capital gain or return of capital distributions. For details, see the instructions for Form 1040A.

Type of Distribution (Form 1099–DIV box indicated)	Where to Report If Total Dividends From All Payers Are: $400 or less	More than $400
Gross Dividends (Box 1a)	Total amount from Box 1(a) not separately entered on form or schedule	Schedule B, line 4
Ordinary Dividends (Box 1b)	Form 1040, line 9	Already included in Gross Dividend amount on line 4 of Schedule B
Capital Gain Distributions (Box 1c)	Any Schedule D transactions? **No**—Form 1040, line 14 **Yes**—Schedule D, line 13	Schedule B, line 6 (Follow instruction)
Nontaxable Distributions (Box 1d)	Basis reduced to zero? **No**—Nontaxable until zero **Yes**—Report on Schedule D	Schedule B, line 7 (Follow instruction)
Investment Expenses (Box 1e)	Schedule A, line 21	Schedule A, line 21
Exempt-Interest Dividends (Not included on Form 1099–DIV)	Form 1040, line 8b	Form 1040, line 8b
Undistributed Capital Gains (Form 2439)	**Gain**—Schedule D, line 13 **Tax**—Form 1040, line 61	Schedule D, line 13 Form 1040, line 61

Sales, Exchanges, and Redemptions

When you sell, exchange, or redeem your mutual fund shares, you generally will have a taxable gain or a deductible loss. This includes shares in a tax-exempt mutual fund. The amount of the gain or loss is the difference between your adjusted basis in the shares and the amount you realize from the sale, exchange, or redemption. "Adjusted basis" and "amount you realize" are defined later under *Gains and Losses*.

A sale generally is a transfer of shares for money only. An exchange is a transfer of shares in return for other shares. A redemption occurs when a fund reacquires its shares. Sales, exchanges, and redemptions are all treated as taxable sales of capital assets.

Exchange of shares in one mutual fund for shares in another mutual fund. Any exchange of one fund for another fund is a taxable exchange, even though you may be able to exchange shares in one mutual fund for shares in another mutual fund that has the same distributor or underwriter without paying a sales charge. You report any gain or loss on the investment in the original shares as a capital gain or loss in the year in which the exchange occurs. You usually can add any service charge or fee paid in connection with an exchange to the cost of the shares acquired. For an exception, see *Commissions and load charges*, later under *Basis of Shares*.

Information returns. Brokers must report to the Internal Revenue Service the proceeds from sales, exchanges, or redemptions. Brokers must give each customer a written statement with that information by January 31 of the year following the calendar year the transaction occurred. Form 1099-B, *Statement for Recipients of Proceeds From Broker and Barter Exchange Transactions*, or a substitute, may be used for this purpose. You report the total sales shown on Forms 1099-B (or substitute) on Schedule D (Form 1040) along with your other gains and losses. Line 1 (and Part VI, if you received bartering income) of Schedule D must be completed if you receive a Form 1099–B (or substitute).

No information return is required if the mutual fund figures its current price per share for purposes of distributions, redemptions, and purchases so as to stabilize the price per share at a constant amount close to its issue price or the price it was originally sold to the public.

Taxpayer identification number. You must give the broker your correct taxpayer identification number (TIN). Generally, an individual will use his or her social security number as the TIN. If you do not provide your TIN, your broker is required to withhold tax at a rate of 20% on the gross proceeds of a transaction and you may be penalized.

Basis of Shares

If you dispose of your shares in a mutual fund, it is important that you know their basis to figure your gain or loss. When you buy or sell shares in a fund, keep the confirmation statements you receive. The statements show the price you paid for the shares and the price you received for your shares when you disposed of them. The information from the confirmation statement when you purchased the shares will help you figure your basis in the fund.

Cost as basis. The original basis of your mutual fund shares is usually their cost or purchase price. The purchase price usually includes any commissions or load charges paid for the purchase.

Example. You bought 100 shares of Fund A for $10 a share. You paid a $50 commission to the broker for the purchase. Your cost basis for each share is $10.50 ($1,050 ÷ 100).

Shares purchased under automatic reinvestment plans. If you participate in an automatic reinvestment plan, keep the statements that show each date, amount, and number of full or fractional shares purchased. The dividends used to purchase each full or fractional share are the cost basis for that share.

Commissions and load charges. The fees and charges you pay to acquire or redeem shares of a mutual fund are not deductible. You can usually add these fees and charges to their cost. A fee paid to redeem the shares usually is a reduction in the redemption price (sales price).

You cannot add the fee or load charge you pay to acquire shares after October 3, 1989, to your cost if all of the following apply:

1) You get a reinvestment right (defined later) because of the purchase of the mutual fund shares or the payment of the fee or charge.
2) You dispose of the shares within 90 days of the purchase date.
3) You acquire new shares in the same mutual fund or another mutual fund, for which the fee or charge is reduced or waived.

If the load charge is reduced, rather than waived, the amount in excess of the reduction is added to the cost of the original shares.

The amount of the load charge that is reduced or waived is added to the cost basis of the new shares (unless all of the above items apply to the purchase of the new shares).

Reinvestment right. This is the right to exchange your mutual fund shares for shares in another mutual fund or to purchase shares in another fund without paying a fee or load charge, or by paying a reduced fee or load charge.

Gift or inheritance. Shares that were acquired by gift or inheritance require the use of a basis other than cost. See the following discussions, for certain shares received as a gift and see *Identifying the Shares Sold*, later.

Shares Acquired by Gift

To determine your original basis of shares in a mutual fund you acquired by gift, you must know:

- The donor's adjusted basis,
- The date of the gift,
- The fair market value at the time of the gift, and
- Any gift tax paid on the gift of the shares.

Donor's adjusted basis. The donor's adjusted basis is the original cost or other original basis increased by such things as undistributed capital gains and decreased by such things as return of capital. Adjusted basis is discussed later.

Fair market value. The fair market value of a share in a mutual fund you acquired by gift after 1954 is the public redemption price (commonly known as both the "bid price" or the "net asset value") at the time the gift was made. If you cannot determine the net asset value in effect at the time of the gift, use the last net asset value quoted by the fund for the date of the gift. If no net asset value is quoted for the date of the gift, for example, a Saturday, Sunday, or holiday, use the last net asset value quoted by the fund for the first

Mutual Fund Record

Mutual Fund	Acquired[1]			Adjustments to Basis Per Share					Adjusted[2] Basis Per Share	Sold or redeemed	
	Date	Number of Shares	Cost Per Share							Date	Number of Shares

[1]Include shares received from reinvestment of dividends.

[2]Cost plus or minus adjustments.

day preceding the date of the gift for which there is a quoted value.

Note: For the fair market value of a closed end mutual fund, see *Stocks and Bonds* in the estate tax portion of Publication 448, *Federal Estate and Gift Taxes.* Closed end mutual funds have a fixed number of shares and are traded on the open stock exchange.

Fair market value less than donor's adjusted basis. If the shares were given to you and their fair market value at the time of the gift was less than the adjusted basis to the donor at the time of the gift, your basis for ***gain*** on their disposition is the donor's adjusted basis. Your basis for ***loss*** is their fair market value at the time of the gift. In this situation, it is possible to sell the shares at neither a gain nor a loss because of the basis you have to use.

Example. You are given a gift of mutual fund shares with an adjusted basis of $10,000 at the time of the gift. The fair market value of the shares at the time of the gift is $9,000. You later sell the shares for $9,500. The basis for figuring a gain is $10,000, so there is no gain. There also is no loss, since the basis for figuring a loss is $9,000. In this situation, you have neither a gain nor a loss.

Fair market value more than donor's adjusted basis. If the shares were given to you and their fair market value at the time of the gift was more than the donor's adjusted basis at the time of the gift, your basis is the donor's adjusted basis at the time of the gift, plus all or part of any gift tax paid on the gift, depending on the date of the gift.

Gifts made after 1976. For gifts made ***after 1976,*** part of the gift tax paid on the gift is added to the basis. This part is figured as follows:

$$\text{Gift tax paid} \times \frac{\text{Net increase in value of gift}}{\text{FMV of gift}} = \text{Amount added to basis for gift tax paid}$$

The net increase in value of the gift is the excess of the fair market value of the gift over the donor's adjusted basis just before the gift. The basis of the gift cannot be more than the fair market value of the property at the time of the gift.

Example. You were given shares in Mutual Fund B in 1987. At the time of the gift, the donor's adjusted basis in the shares was $34,400 and the fair market value was $43,000. A gift tax of $2,200 was paid on the gift. The net increase in value of the gift was $8,600 ($43,000 − $34,400). The increase in the basis of the shares for the gift tax paid is $440 figured as follows:

$$\$2,200 \times \frac{\$\ 8,600}{\$43,000} = \$440$$

Your adjusted basis in the shares is $34,840, the donor's adjusted basis ($34,400) plus part of the gift tax paid on the gift ($440).

Gifts made before 1977. For gifts made on or after September 2, 1958, but ***before 1977,*** any gift tax paid on the gift is added to the basis but the basis cannot be more than the fair market value of the gift at the time of the gift.

Example 1. You were given shares in Fund A in 1968. At the time of the gift, the shares had a fair market value of $21,000 and their adjusted basis to the donor was $20,000. The donor paid a tax of $500 on the gift. Your basis for gain or loss is $20,500, the donor's adjusted basis plus the gift tax paid on the gift.

Example 2. Assume the same facts as in Example 1, except that the gift tax paid was $1,500. Your basis is $21,000, the donor's adjusted basis plus the gift tax paid on the gift, but limited to the fair market value of the shares at the time of the gift.

Shares Acquired By Inheritance

If you inherited shares in a mutual fund, your basis is generally their fair market value at the date of the decedent's death, or at the alternate valuation date, if chosen for estate tax purposes.

Shares decedent received as a gift. The above rule does not apply to appreciated property you or your spouse receive from a decedent if all the following conditions apply.

1) You or your spouse originally gave the shares to the decedent after August 13, 1981.
2) You gave the shares to the decedent during the one-year period before death.
3) The death occurred after 1981.

In this situation, the basis of the shares is the decedent's adjusted basis in the shares immediately before his or her death, rather than their fair market value. ***Appreciated property*** is any property (including mutual fund shares) whose fair market value on the day it was given to the decedent is more than its adjusted basis.

If the estate, or a trust of which the decedent was the grantor, sells the appreciated property and the donor (or the donor's spouse) is entitled to the proceeds, the estate's or trust's basis in the

property is the decedent's adjusted basis immediately before death.

Determining fair market value of inherited shares. The fair market value of a share in a mutual fund acquired from a person who died after August 16, 1954, is the last quoted public redemption price (commonly known as both the "bid price" or "net asset value") on the date of death, or the alternate valuation date if chosen for estate tax purposes. If no net asset value is quoted for the date of death (or the alternate valuation date), for example, that day is on a Saturday, Sunday, or holiday, use the last net asset value quoted by the fund for the first day preceding the date of death (or the alternate valuation date) for which there is a quoted value. If a dividend was declared before the date of death and was payable after that date, the dividend is added to the ex-dividend quotation (price quoted excluding the value of a pending dividend) to determine the share's fair market value.

Note: For the fair market value of a closed end mutual fund, see *Stocks and Bonds* in the estate tax portion of Publication 448, *Federal Estate and Gift Taxes*. Closed end mutual funds have a fixed number of shares and are traded on the open stock exchange.

Community property states. In community property states, you and your spouse generally are considered to each own half the estate (excluding separate property). If one spouse dies after 1947 and at least half of the community interest is includible in the decedent's gross estate (whether or not the estate is required to file a return), the fair market value of the community property at the date of death becomes the basis of both halves of the property.

For example, if the fair market value of the entire community interest in a mutual fund is $100,000, the basis of the surviving spouse's half of the shares is $50,000 and the basis of the other half to the decedent's heirs also is $50,000.

Adjusted Basis

The adjusted basis of stock is the original basis or cost, increased or reduced as described here.

Additions to basis. You must include in your gross income, as undistributed capital gains, amounts allocated to you by the fund even though you did not actually receive them. Your basis in the fund is increased by the difference between your share of the undistributed capital gain and the tax considered paid by you.

This puts you in the same position as if you had actually received the capital gain, paid the tax on it, and then reinvested the difference in the same mutual fund. You should receive Form 2439 from your mutual fund reporting the amounts to include.

Reduction of basis. You must reduce the original basis by the amount you receive from the fund that represents a return of capital. Do not reduce your basis for distributions from the fund that are exempt-interest dividends.

The worksheet (*Mutual Fund Record*) included in this publication can be used to keep track of the adjusted basis of your mutual fund shares. Enter the cost per share when purchased and any adjustments to the basis when the adjustment occurs. Figure the adjusted basis when the shares are sold or redeemed.

For more information concerning the basis of other property, get Publication 551, *Basis of Assets*.

Identifying the Shares Sold

When you dispose of mutual fund shares, you need to determine which shares were sold and the basis of those shares. If your shares in a mutual fund were acquired all on the same day and for the same price, figuring their basis is not difficult. However, shares are generally acquired at various times, in various quantities, and at various prices. Therefore, the process can be more difficult. You may choose to use either the **cost basis** or the **average basis**.

Cost Basis

If you can definitely identify the shares you sold, use the adjusted basis of those particular shares to figure your gain or loss.

Share identification. You will adequately identify your mutual fund shares, even if you bought the shares in different lots at various prices and times if you:

1) Specify to your broker or other agent the particular shares to be sold or transferred **at the time of the sale or transfer,** and
2) Receive confirmation of your specification from your broker **in writing** within a reasonable time.

The confirmation by the mutual fund **must** confirm that you instructed your broker to sell particular shares. You continue to have the burden of proving that you owned the specified shares at the time of sale or transfer.

If the shares were acquired at different times or at different prices and you cannot identify which shares you sold, use the basis of the shares you acquired first as the basis of the shares sold. Therefore, the oldest shares still available are considered sold first. You should keep a separate record of each purchase and any dispositions of the shares until **all** shares purchased at the same time have been disposed of completely.

Example. In 1985 you bought 1,000 shares in Fund XYZ for $10 per share. In January 1986, you purchased 200 shares for $9 a share. In December 1987, you bought another 1,000 shares at $12 per share. On August 10, 1986, you gave your daughter 500 shares of XYZ. On April 8, 1990, you sold 1,300 shares. You left all of your shares in the custody of XYZ and did not identify which shares were to be sold or transferred. The basis of the shares given to your daughter was $5,000 ($10 per share × 500). The basis of the 1,300 shares sold in 1990 was figured as follows:

1985 balance	500 shares @ $10 per share	$5,000
1986 balance	200 shares @ $9 per share	1,800
1987 purchase	600 shares @ $12 per share	7,200
Total adjusted basis of the shares sold in 1990		**$14,000**
Remaining shares' basis (400 shares @ $12 per share)		**$4,800**

Average Basis

You may choose to use an average basis to figure your gain or loss when you sell all or part of your shares in a regulated investment company, if you acquired the shares at various times and prices, and you left the shares on deposit in an account handled by a custodian or agent who acquires or redeems those shares. Once you elect to use an average basis, you must continue to use it for all accounts in the same regulated investment company. You may specify cost basis for shares in other mutual fund companies.

To figure average basis, you can use either the **double-category method** or the **single-category method** (explained later).

Making the choice. You choose to use the average basis of mutual fund shares by clearly showing on your income tax return, for each year the choice applies, that you used an average basis in reporting gain or loss from the sale or transfer of the shares. You must specify whether you used the single-category method or the double-category method in determining average basis. This choice is effective until you get permission from the IRS to revoke it.

Making the choice for gift shares. If your account includes shares that you received by gift after 1920, and the fair market value of the shares at the time of the gift was less than the donor's basis, special rules apply. To use the average basis, you must submit a statement with your initial choice to use one of the average basis methods. It must state that the basis used in figuring the average basis of the gift shares under either method will be the fair market value at the time of the gift. This statement applies to gift shares you receive before and after making the choice, as long as the choice to use the average basis is in effect. If you do not make this statement, you cannot choose to use the average basis for any account that contains gift shares.

Double-category method. All shares in an account at the time of each disposition are divided into two categories: short-term and long-term. Shares held one year or less are short-term. Shares held longer than one year are long-term.

The adjusted basis of each share in a category is the total adjusted basis of all shares in that category at the time of disposition divided by the total shares in the category. You may specify, to the custodian or agent handling your account, from which category the shares are to be sold or transferred. The custodian or agent must confirm ***in writing*** your specification. If you do not specify or receive confirmation, you must first charge the shares sold against the long-term category and then, any remaining shares sold against the short-term category.

Changing categories. After you have held a mutual fund share for more than one year, you must transfer that share from the short-term category to the long-term category. When you make the change, the basis of a transferred share is its actual cost or adjusted basis to you, or if some of the shares in the short-term category have been disposed of, its basis under the average basis method as explained next. The basis of the undisposed shares left in the short-term category that are changed to the long-term category is the average basis of the shares in the short-term category at the time of the most recent disposition from this category.

Single-category method. All shares are included in a single category. The adjusted basis of each share is the total adjusted basis of all shares in the category at the time of a disposition divided by the number of shares in the category. In determining the holding period, the shares disposed of are considered to be those shares acquired first.

Example. You bought the following shares in the GLM Mutual Fund: 100 shares in 1988 at $10 per share, 100 shares in 1989 at $12 a share, and 100 shares in 1990 at $26 a share. The 300 shares cost a total of $4,800. The average basis per share is $16 ($4,800 ÷ 300).

Gains and Losses

You figure gain or loss on the disposition of your shares by comparing the ***amount you realize*** with the ***adjusted basis*** of your shares. If the amount you realize is more than the adjusted basis of the shares, you have a gain. If the amount you realize is less than the adjusted basis of the shares, you have a loss.

Adjusted basis is your original cost or other original basis adjusted for such things as return of capital distributions. See *Adjusted Basis*, discussed earlier.

Amount you realize from a disposition of your shares is the money and value of any property you receive for the shares disposed of, minus your expenses (such as sales commissions, sales charges, or exit fees).

Reporting on Schedule D (Form 1040). Brokers give each customer a Form 1099–B, *Statement for Recipients of Proceeds From Broker and Barter Exchange Transactions*, or a substitute. The form shows the sales price and indicates whether the amount reported is the gross amount or the net amount (gross minus sales expenses).

If your Form 1099–B or similar statement from the broker shows the gross sales price, do not subtract the sales commissions from it when reporting it on Schedule D. Instead report the gross amount in column (d) and increase your cost or other basis, column (c) by any expense of the sale such as sales commissions. If your Form 1099–B shows that the gross sales price less commissions were reported to IRS, enter the net amount in column (d) of Schedule D and ***do not*** increase your basis by the sales commission.

Example 1. You sold 100 shares of Fund B for $2,500. You paid a $75 commission to the broker for handling the sale. Your Form 1099–B shows that the net sales proceeds, $2,425 ($2,500 – $75), were reported to IRS. Report this amount in column (d) of Schedule D.

Example 2. You sold 200 shares of Fund KLM for $10,000. You paid a $100 commission to the broker for handling the sale. You bought the shares for $5,000. Your broker reported the gross proceeds to IRS on Form 1099–B, so you increase your basis in column (c) of Schedule D to $5,100.

Holding Period

When you dispose of your mutual fund shares, you must determine your holding period. Determine your holding period by using the trade dates. The **trade date** is the date on which you contract to buy or sell the mutual fund shares. Do not confuse the trade date with the settlement date, which is the date by which the mutual fund shares must be delivered and payment made. Most mutual funds will show the trade date on your purchase and sale confirmation statements.

Your holding period determines whether the gain or loss is a short-term capital gain or loss or a long-term capital gain or loss. If you hold the shares for one year or less, your gain or loss will be a short-term gain or loss. If you hold the shares for more than one year, your gain or loss will be a long-term gain or loss.

To find out how long you have held your shares, begin counting on the day after the day you bought the shares. (The day you bought the shares is the trade date.) This same date of each succeeding month is the start of a new month regardless of the number of days in the month before. The day you dispose of the shares (trade date) is also part of your holding period.

Example. If you bought the shares on January 17, 1990 (trade date), you start counting on January 18, and the 18th of each following month is the beginning of a new month. Therefore, if you sold the shares on January 17, 1991 (trade date), your holding period would not be more than one year. If you sold them on January 18, 1991, your holding period would be more than one year (12 months plus one day).

Mutual fund shares received as a gift. If you receive a gift of mutual fund shares and your basis is determined by the donor's basis, your holding period is considered to have started on the same day as the donor's holding period.

Inherited mutual fund shares. If you inherit mutual fund shares, you are considered to have held the shares for more than one year (even if you disposed of the shares within one year after the decedent's death) if your basis is:

1) The fair market value at the date of the decedent's death (or the alternate valuation date), or
2) The decedent's adjusted basis in the case of shares described earlier in *Shares decedent received as a gift*, under *Shares Acquired By Inheritance*.

Reinvested dividends. If you participate in an automatic dividend reinvestment plan, each full share or fractional share is considered to have been purchased on the date that each share was purchased for you. Therefore, if you sell all or part of your mutual fund shares, you might have some short-term and some long-term gains and losses.

Certain short-term losses. Special rules apply if you have a short-term loss on the sale of shares on which you received an exempt-interest dividend or a capital gain distribution.

Exempt-interest dividends. If you received exempt-interest dividends on mutual fund shares that you held for 6 months or less and sold those shares at a loss, you may claim only the part of the loss that is more than the exempt-interest dividends. Increase the sales price reported on Schedule D by the loss not allowed. Attach a statement to the Schedule D to explain the difference in the gross proceeds reported by the mutual fund on Form 1099–B or substitute form and the sales price reported on Schedule D. Report the rest of the loss as a short-term capital loss.

Example. On January 5, 1990, you bought a mutual fund share for $40. On January 30, 1990, the mutual fund declares a $5 dividend from tax-exempt interest, which is not taxable to you. On February 5, 1990, you sold the share for $34. If it were not for the tax-exempt dividend, your loss would be $6 ($40 – $34). However, you can only deduct $1, the part of the loss that is more than the exempt-interest dividend ($6 – $5). On Schedule D, increase the sales price from $34 to $39 (the $5 portion of the loss that is not deductible). You may deduct only $1 as a short-term capital loss. Attach a statement to Schedule D explaining the difference in the gross proceeds reported on Form 1099–B by the mutual fund ($34) and the sales price you show on Schedule D ($39).

Capital gain distribution. If you received, or were considered to have received, capital gain distributions on mutual fund shares that you held for 6 months or less and sold at a loss, report only the part of the loss that is more than the capital gain distribution as a short-term capital loss. The part of the loss that is not more than the capital gain distribution is reported as a long-term capital loss. There is an exception for losses on distributions of shares under a periodic liquidation plan.

Example. On April 10, 1990, you bought a mutual fund share for $20. On June 29, 1990, the mutual fund declared a capital gain distribution of $2 a share, which is taxed as a long-term capital gain. On July 5, 1990, you sold the share for $17.50. If it were not for the capital gain distribution, your loss would be a short-term loss of $2.50. However, the part of the loss that is not more than the capital gain distribution ($2) must be reported as a long-term capital loss. The remaining $0.50 of the loss can be reported as a short-term capital loss.

How to Figure Gains and Losses

Separate your short-term gains and losses from your long-term gains and losses on all the mutual fund shares and other capital assets you disposed of during the year. Then determine your net short-term gain or loss and your net long-term gain or loss.

Net short-term capital gains and losses are determined by adding the gains and losses separately in Part I of Schedule D (Form 1040), *Capital Gains and Losses (and Reconciliation of Forms 1099–B)*, and subtracting the smaller total from the larger one. Enter the net short-term capital gain or loss on line 8 of Part I.

Net long-term capital gains and losses are determined by adding the gains and losses separately in Part II of Schedule D (Form 1040) and subtracting the smaller total from the larger one. Enter the net long-term capital gain or loss on line 17 of Part II.

In figuring the long-term capital gain, you should include on line 13, Part II of Schedule D (Form 1040), capital gain distributions received from mutual funds during the year, unless you are not required to report any other capital gains or losses. If you do not need Schedule D for other capital transactions, enter your capital gain distributions on line 14 of Form 1040.

The total net capital gain or loss is determined by combining the net short-term capital gain or loss with the net long-term capital gain or loss. Enter the result on line 18, Part III of Schedule D (Form 1040).

Net capital gain. If line 18, Part III of Schedule D (Form 1040), shows a gain, enter the amount on line 13 of Form 1040.

Net capital loss. If you have a net capital loss, your allowable capital loss deduction is the smaller of:

1) $3,000 ($1,500 if you are married and filing a separate return), or
2) Your net capital loss, as shown on line 18 of Schedule D.

Example 1. Bob and Gloria sold all of their shares in a mutual fund in 1990. The sale resulted in a capital loss of $7,000. They had no other sales of capital assets in 1990. On their joint 1990 return, they can deduct $3,000 which is the smaller of their loss or the net capital loss limit.

If Bob and Gloria's capital loss had been $2,000, their capital loss deduction would have been $2,000, because it is less than the $3,000 limit.

Example 2. Margaret has capital gains and losses for the year as follows:

	Short-term	Long-term
Gains	$ 700	$ 40
Losses	[800]	[2,000]

Margaret's deductible capital loss is $1,700, which she figures as follows:

Short-term capital losses	[$ 800]	
Subtract short-term capital gains	700	
Net short-term capital loss		[$ 100
Long-term capital losses	[$ 2,000]	
Subtract long-term capital gains	400	
Net long-term capital loss		[$ 1,600
Deductible capital loss		[$ 1,700

Example 3. In 1990, Mary and Les file a joint return. They have a net long-term capital loss of $5,600 and a net short-term capital gain of $450. Their net capital loss is $5,150 ($5,600 minus $450). Because their net capital loss exceeds $3,000, the amount they may deduct in 1990 is limited to $3,000.

Capital loss carryovers. If your net capital losses are more than your allowable net capital loss deduction, you may carry over the excess to later years until it is completely used up. The capital loss carryover is your capital loss in excess of the lesser of either of the following:

1) Your allowable capital loss deduction for the year, or

) Your taxable income increased by your allowable capital loss deduction for the year and by your deduction for personal exemptions.

If your deductions exceed your gross income, ou start the computation with a negative number. When carried over, the loss will keep its original haracter as long term or short term. Therefore, a ng-term capital loss carried over from a previous ar will offset long-term gains of the current year efore it offsets short-term gains of the current ar.

In determining your capital loss carryover, apply our capital loss deduction to reduce your net hort-term losses first. If after applying the short-erm losses, the capital loss limit has not been eached, then apply the long-term losses until you each the limit.

Use Part IV of Schedule D (Form 1040) to figure our capital loss carryover.

Capital loss carryovers from separate returns are combined if you file a joint return for the current year. However, if you once filed jointly and are now filing separately, a capital loss carryover from the joint return can be deducted only on the separate return of the spouse who actually had the loss.

For more information on figuring capital loss carryovers, get Publication 550, *Investment Income and Expenses.*

Investment Expenses

You generally can deduct the expenses of producing investment income. These include expenses for investment counseling and advice, legal and accounting fees, and investment newsletters. These expenses are deductible as miscellaneous itemized deductions to the extent that they exceed 2% of your adjusted gross income. Get Publication 550 for more information.

Interest paid on money to buy or carry investment property is also deductible. See *Limit on Investment Interest Expense*, discussed later.

Nonpublicly offered mutual funds. Generally, mutual funds are publicly offered funds. These mutual funds report only the net amount of investment income after your share of the investment expenses has been deducted.

If you own shares in a nonpublicly offered mutual fund during 1990, your share of the investment expenses must be deducted on your Schedule A (Form 1040) as a miscellaneous itemized deduction to the extent it exceeds 2% of your adjusted gross income. These expenses will be shown in Box 1e of Form 1099–DIV. A nonpublicly offered mutual fund is one that:

1) Is not continuously offered pursuant to a public offering,
2) Is not regularly traded on an established securities market, and
3) Is not held by at least 500 persons at all times during the tax year.

Contact your mutual fund if you are not sure if it is nonpublicly offered.

Expenses allocable to exempt-interest dividends. You cannot deduct expenses that are for the collection or production of exempt-interest dividends. Expenses must be allocated if they were partly for both taxable and tax-exempt income. One accepted method for allocating expenses is to divide them in the same proportion that your tax-exempt income from the mutual fund is to your total income from the fund. To do this, you must first divide your tax-exempt income by your total income. Then multiply the result by your expenses to find the part of the expenses that relates to the tax-exempt income. You cannot deduct this part.

Example. William received $600 in dividends from his mutual fund – exempt-interest dividends of $480 and taxable dividends of $120. In earning this income, he had a $50 expense for a newsletter on mutual funds. William divides the exempt-interest dividends by the total dividends to figure the part of the expense that is not deductible ($480 ÷ $600 = .80). Therefore, 80% of William's expense is for exempt-interest income. He cannot deduct $40 (80% of $50) of the expense. William may claim the balance of the expense, $10, as a miscellaneous deduction subject to the 2% of adjusted gross income limit. That part of the expense is allocable to the taxable dividends.

Limit on Investment Interest Expense

The amount you can deduct as investment interest expense may be limited in two different ways. First, you may not deduct the interest on money you borrow to buy or carry shares in a mutual fund that distributes only exempt-interest dividends. If the fund also distributes taxable dividends, you must allocate the interest between the taxable and nontaxable income. Allocate the interest using the method of allocation just explained under *Expenses allocable to exempt-interest dividends.*

Second, investment interest is limited by the amount of investment income. This is explained in the following discussions.

Limit on deduction for 1990. For 1990, you are allowed a deduction for investment interest expense of up to the amount of your ***net investment income*** plus 10% of any excess investment interest expense over your net investment income. However, the excess cannot be more than $1,000 ($500 if you are married filing a separate return).

After 1990, your deduction for investment interest expense is limited to the amount of your investment income only. There is no deduction for excess investment interest expense.

Net investment income, for these purposes, is figured by subtracting from your investment income:

1) Investment expenses other than interest, and
2) Any allowed passive activity losses other than rental real estate activity.

Investment income generally includes gross income derived from property held for investment (such as interest, dividends, annuities, and royalties) and any net gain derived from disposing of investment property. Investment property includes mutual fund shares.

Investment expenses include all income-producing expenses, other than interest expense, relating to the investment property that are allowable deductions after subtracting 2% of adjusted gross income. In computing the amount of expenses that exceed the 2% floor, miscellaneous expenses that are not investment expenses are disallowed before any investment expenses are disallowed.

For information on the 2% limit, get Publication 529, *Miscellaneous Deductions.* For more information on passive activity losses, get Publication 925, *Passive Activity and At-Risk Rules.*

Example. Jane, a single taxpayer, hac investment income in 1990 derived from dividends and a net gain on the sale of investment property, totaling $12,000. Jane's 1990 investment expenses (other than interest expense) directly connected with the production of income amounted to $980 after subtracting the 2% limit on miscellaneous itemized deductions. Jane incurred $12,500 of investment interest expense in 1990. She had no passive activity losses. Jane figures net investment income and the limits on her investment interest expense deduction for 1990 in the following way:

Total investment income	$12,000
Subtract: Investment expenses (other than interest)	980
Net investment income	$11,020
Subtract: Investment interest expense	12,500
Excess interest expense subject to limit in 1990	$ 1,480

For 1990, Jane's investment interest expense deduction is limited to $11,020 (her net investment income) plus $148 (10% of the $1,480 excess interest expense). Her total investment interest expense deduction for 1990 is $11,168 ($11,020 + $148).

Carryover. You may **carry forward** to the next tax year the investment interest that you could not deduct. You may deduct the interest carried forward to the extent that your net investment income exceeds your investment interest in that later year. However, the interest you carry forward to 1990 cannot be used in determining any excess interest allowable that is subject to the phase-out percentages.

Form 4952. Use Form 4952, *Investment Interest Expense Deduction,* to figure your investment interest expense deduction. For more information about investment interest expense, get Publication 550.

Comprehensive Example

James and Mary Jones, a married couple, file a joint return for calendar year 1990, and decide not to itemize their deductions. During the year James received gross wages of $40,750.

James and Mary received $2,425 in interest income from their joint savings account.

They are joint shareholders in Green Publishing Company and received $250 in ordinary dividends.

They also are joint shareholders in Mutual Fund A. They purchased 50 shares for $1,000 on January 4, 1990. James and Mary have requested that the fund reinvest all of their distributions. After the close of the year the fund sent them Form 1099–DIV shown later.

Form 1040. James and Mary fill in the requested information at the top of Form 1040, including Filing Status and Exemptions. (See illustration.) On line 7, they enter James's salary of $40,750. Since they have more than $400 each of interest and dividend income, they must fill out all of Schedule B (Form 1040).

Schedule B (Form 1040). On line 1, Part I, they enter their bank's name and the interest received of $2,425. They also complete lines 2 and 4 of Schedule B and enter the $2,425 on line 8a of Form 1040. On line 5, Part II of Schedule B (Form 1040), James and Mary list their $250 ordinary dividends from Green Publishing Company. They also list their $200 gross distributions from Mutual Fund A (from Box 1a, Form 1099–DIV). They enter the total of $450 on line 6, Schedule B.

On line 7, they enter the $25 listed in Box 1c of Form 1099–DIV as *Capital gain distributions.* On line 8, they enter the $5.60 (rounded to $6) listed in Box 1d of Form 1099–DIV as *Nontaxable distributions.* They add lines 7 and 8 together and enter the total on line 9. They subtract line 9 from line 6 and enter the result on line 10. This amount is their ordinary (taxable) dividends. They enter it on line 9, Form 1040.

Line 14, Form 1040. If James or Mary had any sales or exchanges of capital assets, they would be required to file a Schedule D. They would enter the capital gain distribution of $25 (line 7, Schedule B) on line 13, Schedule D. However, in this example, they had no other sales or exchanges of capital assets during the year, so they need not file Schedule D. Instead they enter $25 on line 14, Form 1040.

Completing Form 1040. James and Mary add lines 7 through 22 and enter the total on line 23. Now they are ready to figure their adjusted gross income, taxable income, and tax liability.

Basis. During the calendar year, the return of capital distribution from Mutual Fund A changed the basis in the shares that James and Mary held at that time. Therefore, they figure their current adjusted basis in their personal records. This figure will be needed when they sell or exchange their shares.

The cost basis in Mutual Fund A shares purchased by James and Mary at the beginning of the year was $20 a share. The basis of shares purchased during the year is $25 a share. The return of capital of $5.60 (listed in Box 1d of Form 1099–DIV as *Nontaxable distributions*) received during the year reduces their basis in the 56 shares they own at that time.

James and Mary also requested that all distributions to which they were entitled be reinvested in the fund. Therefore, the fund used their total distributions of $200 ($50 a quarter) to buy additional shares.

James and Mary keep track of their investment in Mutual Fund A using the Mutual Fund Record illustrated later.

Form 1040 Department of the Treasury—Internal Revenue Service **U.S. Individual Income Tax Return 1990**

For the year Jan.–Dec. 31, 1990, or other tax year beginning , 1990, ending , 19 OMB No. 1545-0074

Label (See Instructions on page 8.) Use IRS label. Otherwise, please print or type.

	Your first name and initial	Last name	Your social security number
LABEL HERE	James A.	Jones	123 00 4567
	If a joint return, spouse's first name and initial	Last name	Spouse's social security number
	Mary B.	Jones	234 00 5678
	Home address (number and street). (If you have a P.O. box, see page 9.)	Apt. no.	For Privacy Act and Paperwork Reduction Act Notice, see Instructions.
	3702 Maple Road		
	City, town or post office, state and ZIP code. (If you have a foreign address, see page 9.)		
	Hometown, VA 22000		

Presidential Election Campaign (See page 9.) Do you want $1 to go to this fund? [X] Yes [ ] No. If joint return, does your spouse want $1 to go to this fund? [X] Yes [ ] No. Note: Checking "Yes" will not change your tax or reduce your refund.

Filing Status Check only one box.

1 [ ] Single. (See page 9 to find out if you can file as head of household.)
2 [X] Married filing joint return (even if only one had income)
3 [ ] Married filing separate return. Enter spouse's social security no. above and full name here. ▶
4 [ ] Head of household (with qualifying person). (See page 9.) If the qualifying person is your child but not your dependent, enter this child's name here. ▶
5 [ ] Qualifying widow(er) with dependent child (year spouse died ▶ 19). (See page 9.)

Exemptions (See Instructions on page 10.)

6a [X] **Yourself** If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 33b on page 2
b [X] **Spouse**

No. of boxes checked on 6a and 6b: 2

c **Dependents:** (1) Name (first, initial, and last name) | (2) Check if under age 2 | (3) If age 2 or older, dependent's social security number | (4) Relationship | (5) No. of months lived in your home in 1990

No. of your children on 6c who: lived with you ___ ; didn't live with you due to divorce or separation (see page 11) ___

No. of other dependents on 6c ___

If more than 6 dependents, see Instructions on page 11.

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶ [ ]

e Total number of exemptions claimed: Add numbers entered on lines above: 2

Income Attach Copy B of your Forms W-2, W-2G, and W-2P here. If you do not have a W-2, see page 8. Attach check or money order on top of any Forms W-2, W-2G, and W-2P.

7	Wages, salaries, tips, etc. *(attach Form(s) W-2)*	7	40,750 00
8a	**Taxable** interest income *(also attach Schedule B if over $400)*	8a	2,425 00
b	**Tax-exempt** interest income (see page 13). DON'T include on line 8a [8b]		
9	Dividend income *(also attach Schedule B if over $400)*	9	419 00
10	Taxable refunds of state and local income taxes, if any, from worksheet on page 14	10	
11	Alimony received	11	
12	Business income or (loss) *(attach Schedule C)*	12	
13	Capital gain or (loss) (attach Schedule D)	13	
14	Capital gain distributions not reported on line 13 (see page 14)	14	25 00
15	Other gains or (losses) *(attach Form 4797)*	15	
16a	Total IRA distributions [16a] 16b Taxable amount (see page 14)	16b	
17a	Total pensions and annuities [17a] 17b Taxable amount (see page 14)	17b	
18	Rents, royalties, partnerships, estates, trusts, etc. (attach Schedule E)	18	
19	Farm income or (loss) *(attach Schedule F)*	19	
20	Unemployment compensation (insurance) (see page 16)	20	
21a	Social security benefits [21a] 21b Taxable amount (see page 16)	21b	
22	Other income (list type and amount—see page 16)	22	
23	Add the amounts shown in the far right column for lines 7 through 22. This is your **total income** ▶	23	43,619 00

Adjustments to Income (See Instructions on page 16.)

24a	Your IRA deduction, from applicable worksheet on page 17 or 18 [24a]		
b	Spouse's IRA deduction, from applicable worksheet on page 17 or 18 [24b]		
25	Deduction for self-employment tax, from worksheet on page 18 [25]		
26	Self-employed health insurance deduction, from worksheet on page 18 [26]		
27	Keogh retirement plan and self-employed SEP deduction [27]		
28	Penalty on early withdrawal of savings [28]		
29	Alimony paid. Recipient's SSN ▶ [29]		
30	Add lines 24a through 29. These are your **total adjustments** ▶	30	0

Adjusted Gross Income

31	Subtract line 30 from line 23. This is your **adjusted gross income.** *If this amount is less than $20,264 and a child lived with you, see page 23 to find out if you can claim the "Earned Income Credit" on line 57* ▶	31	43,619 00

Tax Computation If you want IRS to figure your tax, see Instructions on page 19.	32	Amount from line 31 (adjusted gross income)		32	43,619 00
	33a	Check if: ☐ You were 65 or older ☐ Blind; ☐ Spouse was 65 or older ☐ Blind. Add the number of boxes checked and enter the total here. ▶	33a		
	b	If your parent (or someone else) can claim you as a dependent, check here ▶	33b ☐		
	c	If you are married filing a separate return and your spouse itemizes deductions, or you are a dual-status alien, see page 19 and check here ▶	33c ☐		
	34	Enter the **larger** of: • Your **standard deduction** (from applicable chart (or worksheet) on page 20), **OR** • Your **itemized deductions** (from Schedule A, line 27). If you itemize, attach Schedule A and check here ▶ ☐		34	5,450 00
	35	Subtract line 34 from line 32		35	38,169 00
	36	Multiply $2,050 by the total number of exemptions claimed on line 6e		36	4,100 00
	37	**Taxable income.** Subtract line 36 from line 35. (If line 36 is more than line 35, enter -0-.)		37	34,069 00
	38	Enter tax. Check if from: a ☒ Tax Table, b ☐ Tax Rate Schedules, or c ☐ Form 8615 (see page 21) (If any is from Form(s) 8814, enter that amount here ▶ _____.)		38	5,321 00
	39	Additional taxes (see page 21). Check if from: a ☐ Form 4970 b ☐ Form 4972		39	
	40	Add lines 38 and 39	▶	40	5,321 00
Credits (See Instructions on page 21.)	41	Credit for child and dependent care expenses *(attach Form 2441)*	41		
	42	Credit for the elderly or the disabled *(attach Schedule R)*	42		
	43	Foreign tax credit *(attach Form 1116)*	43		
	44	General business credit. Check if from: a ☐ Form 3800 or b ☐ Form (specify) _____	44		
	45	Credit for prior year minimum tax (attach Form 8801)	45		
	46	Add lines 41 through 45	▶	46	0
	47	Subtract line 46 from line 40. (If line 46 is more than line 40, enter -0-.)		47	5,321 00
Other Taxes	48	Self-employment tax *(attach Schedule SE)*		48	
	49	Alternative minimum tax *(attach Form 6251)*		49	
	50	Recapture taxes (see page 22). Check if from: a ☐ Form 4255 b ☐ Form 8611		50	
	51	Social security tax on tip income not reported to employer *(attach Form 4137)*		51	
	52	Tax on an IRA or a qualified retirement plan *(attach Form 5329)*		52	
	53	Advance earned income credit payments, from Form W-2		53	
	54	Add lines 47 through 53. This is your **total tax**	▶	54	5,321 00
Payments Attach Forms W-2, W-2G, and W-2P to front.	55	Federal income tax withheld **(If any is from Form(s) 1099, check** ▶ ☐ **)**	55 5,820 00		
	56	1990 estimated tax payments and amount applied from 1989 return	56		
	57	**Earned income credit** (see page 23)	57		
	58	Amount paid with Form 4868 (extension request)	58		
	59	Excess social security tax and RRTA tax withheld (see page 24)	59		
	60	Credit for Federal tax on fuels *(attach Form 4136)*	60		
	61	Regulated investment company credit *(attach Form 2439)*	61		
	62	Add lines 55 through 61. These are your **total payments**	▶	62	5,820 00
Refund or Amount You Owe	63	If line 62 is more than line 54, enter amount **OVERPAID**	▶	63	499 00
	64	Amount of line 63 to be **REFUNDED TO YOU**	▶	64	499 00
	65	Amount of line 63 to be **APPLIED TO YOUR 1991 ESTIMATED TAX** ▶	65		
	66	If line 54 is more than line 62, enter AMOUNT YOU OWE. Attach check or money order for full amount payable to "Internal Revenue Service." Write your name, social security number, address, daytime phone number, and "1990 Form 1040" on it		66	
	67	Estimated tax penalty (see page 25)	67		

Sign Here (Keep a copy of this return for your records.)

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

	Date	Your occupation
Your signature ▶ James A. Jones	4/15/91	Supervisor
Spouse's signature (if joint return, BOTH must sign) ▶ Mary B. Jones	4/15/91	Spouse's occupation Homemaker

Paid Preparer's Use Only

	Date	Check if self-employed ☐	Preparer's social security no.
Preparer's signature ▶			
Firm's name (or yours if self-employed) and address ▶		E.I. No.	
		ZIP code	

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Name(s) shown on Form 1040. (Do not enter name and social security number if shown on other side.)

James A. & Mary B. Jones

Your social security number: 123 00 4567

Schedule B—Interest and Dividend Income

Attachment Sequence No. 08

Part I Interest Income

(See instructions on pages 13 and 30.)

If you received more than $400 in taxable interest income, or you are claiming the exclusion of interest from series EE U.S. savings bonds issued after 1989 (see page 30), you must complete Part I. List ALL interest received in Part I. If you received more than $400 in taxable interest income, you must also complete Part III. If you received, as a nominee, interest that actually belongs to another person, or you received or paid accrued interest on securities transferred between interest payment dates, see page 31.

Interest Income

Note: If you received a Form 1099-INT, Form 1099-OID, or substitute statement, from a brokerage firm, list the firm's name as the payer and enter the total interest shown on that form.

		Amount
1 Interest income. (List name of payer—if any interest income is from seller-financed mortgages, see Instructions and list this interest first.) ▶		
First National Bank of Hometown	1	2,425 00
2 Add the amounts on line 1. Enter the total	2	2,425 00
3 Enter the excludable savings bond interest, if any, from Form 8815, line 14. Attach Form 8815 to Form 1040	3	0
4 Subtract line 3 from line 2. Enter the result here and on Form 1040, line 8a ▶	4	2,425 00

Part II Dividend Income

(See Instructions on pages 13 and 31.)

If you received more than $400 in gross dividends and/or other distributions on stock, you must complete Parts II and III. If you received, as a nominee, dividends that actually belong to another person, see page 31.

Dividend Income

Note: If you received a Form 1099-DIV, or substitute statement, from a brokerage firm, list the firm's name as the payer and enter the total dividends shown on that form.

			Amount
5 Dividend income. (List name of payer—include on this line capital gain distributions, nontaxable distributions, etc.) ▶			
Dreex Publishing Company			250 00
Mutual Fund A			200 00
	5		
6 Add the amounts on line 5. Enter the total		6	450 00
7 Capital gain distributions. Enter here and on Schedule*	7 25 00		
8 Nontaxable distributions. (See the Instructions for Form 1040, line 9.)	8 6 00		
9 Add the amounts on lines 7 and 8. Enter the total		9	31 00
10 Subtract line 9 from line 6. Enter the result here and on Form 1040, line 9 ▶		10	419 00

*If you received capital gain distributions but do not need Schedule D to report any other gains or losses, see the Instructions for Form 1040, lines 13 and 14.

Part III Foreign Accounts and Foreign Trusts

(See Instructions on page 31.)

If you received more than $400 of interest or dividends, OR if you had a foreign account or were a grantor of, or a transferor to, a foreign trust, you must answer both questions in Part III.

		Yes	No
11a	At any time during 1990, did you have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? (See page 31 of the Instructions for exceptions and filing requirements for Form TD F 90-22.1.)		X
b	If "Yes," enter the name of the foreign country ▶		
12	Were you the grantor of, or transferor to, a foreign trust that existed during 1990, whether or not you have any beneficial interest in it? If "Yes," you may have to file Form 3520, 3520-A, or 926		X

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Schedule B (Form 1040) 1990

Mutual Fund Record

Mutual Fund	Acquired¹ Date	Acquired¹ Number of Shares	Acquired¹ Cost Per Share	Adjustments to Basis Per Share					Adjusted² Basis Per Share	Sold or redeemed Date	Sold or redeemed Number of Shares
Mutual Fund A	1-4-90	50	20	12-31-90 (.10)							
"	3-30-90	2	25	12-31-90 (.10)							
"	6-30-90	2	25	12-31-90 (.10)							
"	9-28-90	2	25	12-31-90 (.10)							
"	12-31-90	2	25								

¹Include shares received from reinvestment of dividends.

²Cost plus or minus adjustments.

9191 ☐ VOID ☐ CORRECTED

Type or machine print PAYER'S name, street address, city, state, and ZIP code

Mutual Fund A
2112 Main Street
New York, NY 02112

1a Gross dividends and other distributions on stock (Total of 1b, 1c, 1d, and 1e)
$ 200.00

1b Ordinary dividends
$ 169.40

OMB No. 1545-0110

1990

Statement for Recipients of

Dividends and Distributions

PAYER'S Federal identification number	RECIPIENT'S identification number	1c Capital gain distributions	1d Nontaxable distributions	Copy A For Internal Revenue Service Center
10-2345678	123-00-4567	$ 25.00	$ 5.60	
Type or machine print RECIPIENT'S name: James E. Jones, Mary A. Jones		1e Investment expenses: $ -0-	2 Federal income tax withheld: $	For Paperwork Reduction Act Notice and instructions for completing this form, see Instructions for Forms 1099, 1098, 5498, and W-2G.
Street address: 3702 Maple Road		3 Foreign tax paid: $	4 Foreign country or U.S. possession	
City, state, and ZIP code: Hometown, VA 22000		**Liquidation Distributions**		
Account number (optional)		5 Cash: $	6 Noncash (Fair market value): $	

Form **1099-DIV**

Department of the Treasury - Internal Revenue Service

Do NOT Cut or Separate Forms on This Page

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*U.S. Government Printing Office: 1990 — 282-015/20014